

**Supplemental Reporting Document
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August 2006 Investment Committee Meeting
(June 2006 Reporting Period)**

Quarterly Reports
AIM Program



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SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

Background

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of March 31, 2006. The report may be modified over time to reflect additional enhancements.

Program Review

As of March 31, 2006, the AIM Program had active commitments that totaled \$29.8 billion. Commitments to exited investments totaled \$2.0 billion bringing since inception (1990) commitments to \$31.9 billion. Since inception, the AIM Program has made contributions of \$19.6 billion and received distributions of \$15.6 billion. Of the \$15.6 billion in distributions, \$8.5 billion represents realized gains, income, and dividends. The AIM Program's fully realized investments have provided a since inception return of 18.5%. This represents a 1.6x return of

contributed capital. Since Inception to March 31, 2006, the AIM Program has generated a net IRR of 12.5%.

V. STRATEGIC PLAN:

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Reporting Unit staff.

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CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

QUARTERLY REVIEW

EXECUTIVE SUMMARY

*For the quarter ended
March 31, 2006*

Prepared by The PrivateEdge Group, State Street Corporation



STATE STREET

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I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The PrivateEdge Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

Portfolio Summary

- As of March 31, 2006, the AIM Program had \$29.8 billion of active commitments. Commitments to exited investments totaled \$2.0 billion, bringing since inception commitments to \$31.9 billion.
- Since inception, the AIM Program has made contributions of \$19.6 billion and received distributions of \$15.6 billion. Of the \$15.6 billion in distributions, \$8.5 billion represents realized gains, income and dividends. The Program has become self-funding. During the first quarter of 2006, distributions exceeded contributions by \$0.1 billion.
- Due to the young relative age of the AIM portfolio, a large amount of the committed capital has not been called. At March 31, 2006, 40% of the active capital commitments, or \$11.9 billion, remained unfunded.

SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH MARCH 31, 2006 (US\$ IN MILLIONS)

	Capital Committed ⁽¹⁾	Capital Contributed ⁽²⁾	Reported Value ⁽³⁾	Distributions		Investment Multiple
				Return of Capital	Realized Gain ⁽⁴⁾	
Total Active Commitments⁽⁵⁾	\$29,839.7	\$17,944.0	\$11,451.4	\$5,861.3	\$7,182.2	1.4x
Total Exited Commitments⁽⁶⁾	--	\$1,616.0	--	\$1,246.2	\$1,351.2	1.6x

⁽¹⁾ Represents all authorized commitments as of March 31, 2006, including those commitments that have been authorized but not yet funded.

⁽²⁾ Includes fees in excess of committed capital.

⁽³⁾ Based on values reported by the general partners as March 31, 2006.

⁽⁴⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽⁵⁾ An active commitment refers to an investment that has not reached the end of its legal term.

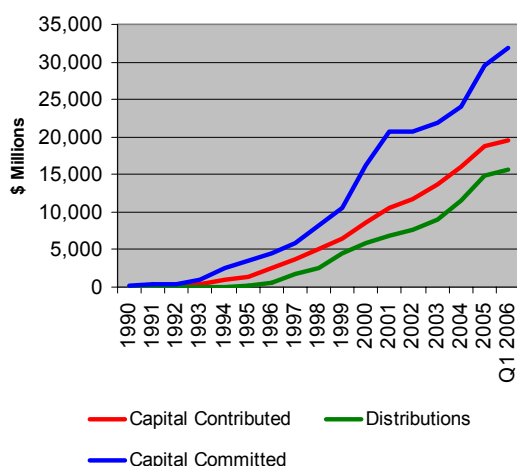
⁽⁶⁾ An exited commitment is defined either as a commitment that has ended in accordance with the terms of the partnership agreement or a commitment in which the limited partners have chosen to end prematurely due to unforeseen circumstances.



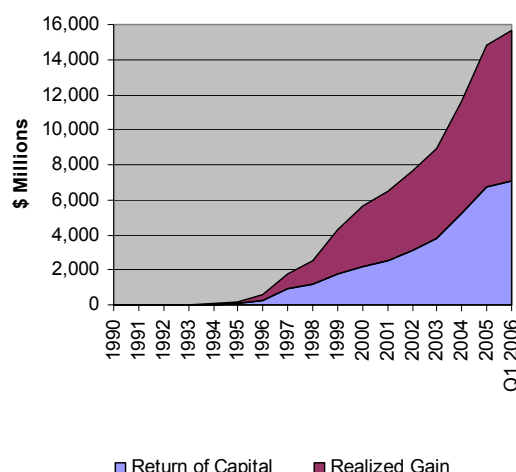
Performance

- Fully realized investments have provided a since inception return of 18.5%. This represents a 1.6x return of contributed capital.
- As of March 31, 2006, the weighted average age of all of the current investments in the AIM portfolio was 4.4 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of March 31, 2006, the AIM young fund net internal rate of return ("IRR") was 21.2% which exceeded the preliminary estimate of the Custom Young Fund Universe median return of 2.3% by 1,890 basis points. The AIM Program is displaying solid returns for a young portfolio.
- Since inception to March 31, 2006, the AIM Program generated a net IRR of 12.5%. At March 31, 2006, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index was 8.9%. The public markets have been recovering over the past few years, but there is typically a lag in the valuations in the private market relative to those in the public markets.

**AIM PROGRAM CUMULATIVE
CASH FLOW SINCE INCEPTION**



**AIM PROGRAM CASH DISTRIBUTIONS
SINCE INCEPTION**



Portfolio Activity

- 14 new commitments were authorized during the first quarter of 2006 for a total of \$2.2 billion.
- During the first quarter of 2006 the AIM Program received 56 investment opportunities. During the same period, GSA reviewed 128 investment opportunities on behalf of CEV I, II and III. Both the AIM Program and GSA may have reviewed some of the same opportunities.
- During 2006, the AIM Program contributed \$758.0 million to and received distributions of \$853.8 million from the underlying portfolio. Of the \$853.8 million in distributions, \$517.0 million represents income and realized gains.

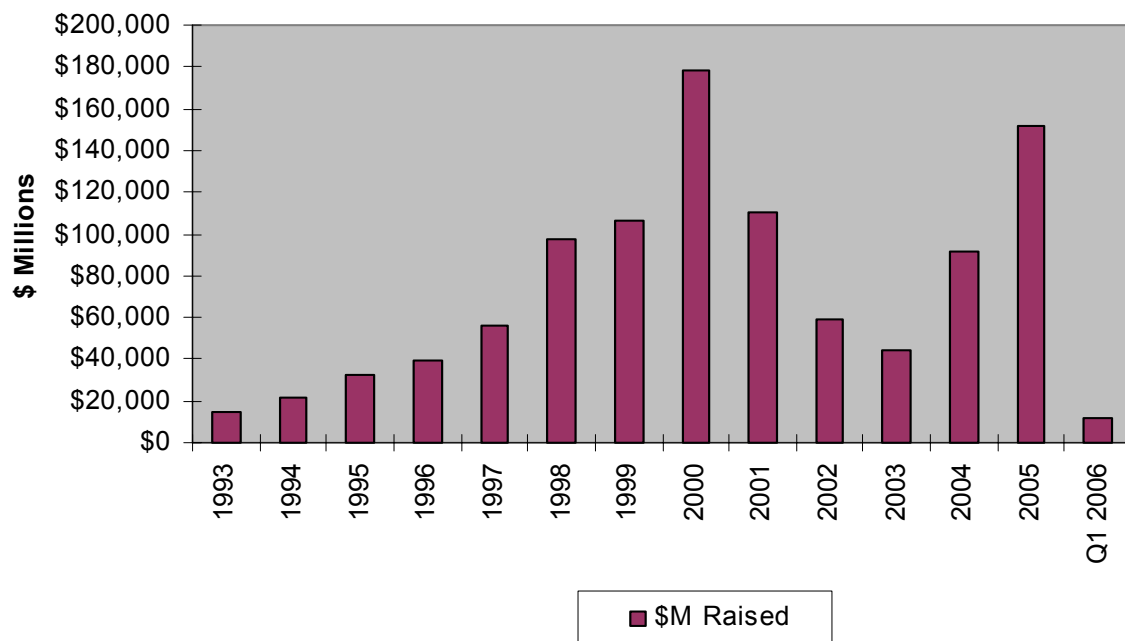


B. MARKET OVERVIEW

Market

- According to the Private Equity Analyst, \$11.8 billion was committed to 35 funds during 2006. The commitment pace is down 14% from 2005 when \$13.7 billion was committed to 46 funds. Venture capital fundraising was down 32% from 2005 with \$3.2 billion committed in 2006. Buyout fundraising was down 54% from 2005 with \$3.4 billion committed in 2006. The remaining \$5.2 billion raised in Q1 2006 was committed to Mezzanine Funds, Fund of Funds and other Private Equity Funds.

Funds Raised (All Private Equity)

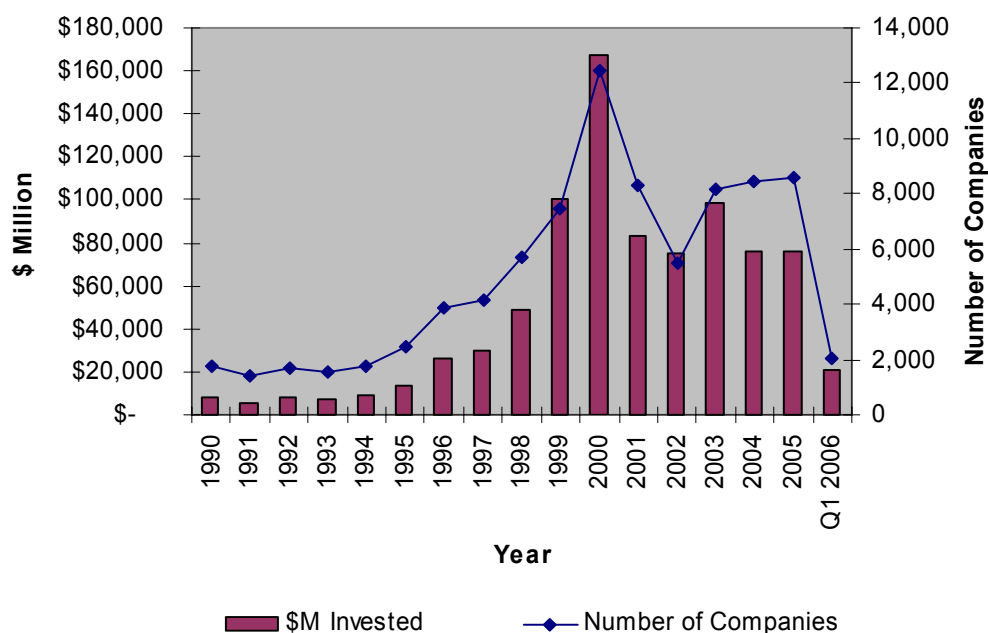


Source: Private Equity Analyst



- Deal activity for all private equity during the first quarter of 2006 increased in both dollar amount and in the number of companies receiving funding compared to 2005. According to Venture Economics, 2,025 companies received \$21.1 billion in funding in 2006, compared with 2,001 companies that received \$18.5 billion in 2005.
- In Q1 2006, venture capital activity increased in dollar amount, but decreased in the number of companies receiving funding compared in 2005. According to Venture Economics, 1,600 companies received \$11.5 billion in venture funding in Q1 2006 compared with 1,642 companies that received \$9.3 billion for the same quarter a year ago. During Q1 2006, buyout activity increased in both dollar amount and in the number of companies that received funding. According to Venture Economics, 839 companies received \$11.8 billion in buyout funding in Q1 2006, compared with 725 companies that received \$11.3 billion for the same quarter in 2005.⁽⁸⁾

Dollars Invested (All Private Equity)



Source: Venture Economics

⁽⁸⁾ According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.



C. PORTFOLIO OVERVIEW

Portfolio Diversification – By Strategy

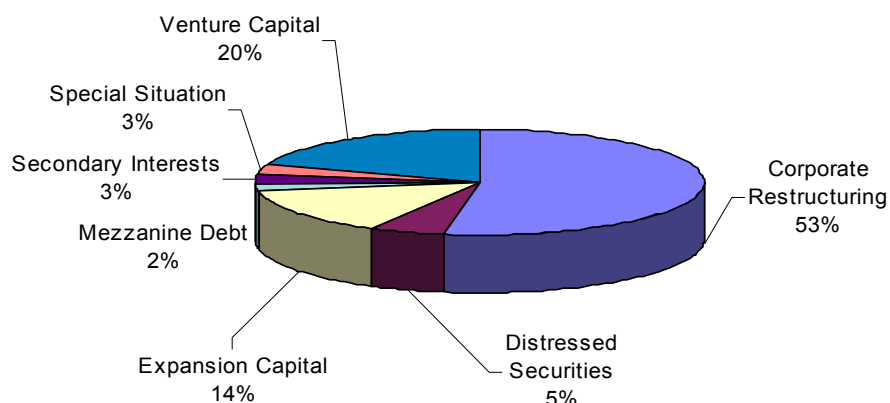
The AIM Program invests in all types of private equity and is well diversified. The current commitments are generally consistent with the diversification within the private equity marketplace. Thus, a majority of the active AIM Program commitments are to Corporate Restructuring, Venture Capital and Expansion Capital.

ACTIVE COMMITMENTS BY PORTFOLIO STRATEGY (US\$MILLION)

	<i>Active Commitments</i>	<i>Contributions</i>	<i>Reported Value</i>	<i>DISTRIBUTIONS</i>	
				<i>Return of Capital</i>	<i>Realized Gain⁽⁹⁾</i>
Corporate Restructuring	\$15,699.3	\$8,653.0	\$6,002.2	\$3,152.7	\$4,454.9
Distressed Securities	\$1,624.8	\$923.7	\$710.2	\$352.1	\$349.6
Expansion Capital	\$4,234.1	\$2,815.6	\$1,768.4	\$699.8	\$718.5
Mezzanine Debt	\$686.8	\$437.9	\$148.8	\$207.8	\$100.5
Secondary Interests	\$837.3	\$707.8	\$297.2	\$598.4	\$100.7
Special Situation	\$861.9	\$511.3	\$287.68	\$186.4	\$130.1
Venture Capital	\$5,895.5	\$3,894.7	\$2,237.0	\$664.1	\$1,327.9
Total	\$29,839.7	\$17,944.0	\$11,451.4	\$5,861.3	\$7,182.2

⁽⁹⁾ Realized gains include interest, dividends and gains distributed by the general partners.

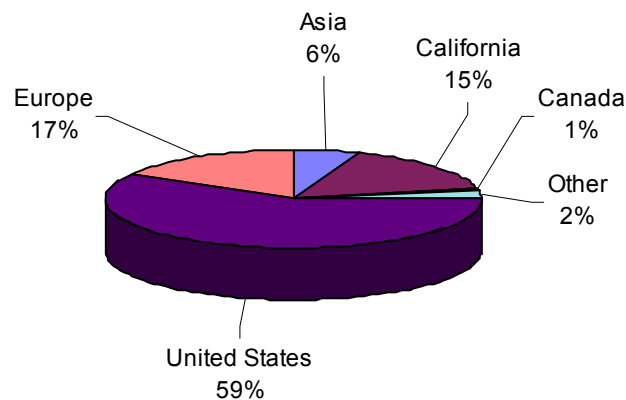
AIM Program - Portfolio Diversification by Strategy As A Percentage of Active Commitments As of March 31, 2006



Portfolio Geographic Diversification

As of March 31, 2006, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 15% of the investments were in companies with their primary locations within California and 59% of the investments were in non-California domestic areas. International portfolio companies represented 26% of the total reported market value of all portfolio companies.

Portfolio Diversification by Geographic Location As Measured by CalPERS' Market Value Exposure As of March 31, 2006



Portfolio Company Diversification by Industry

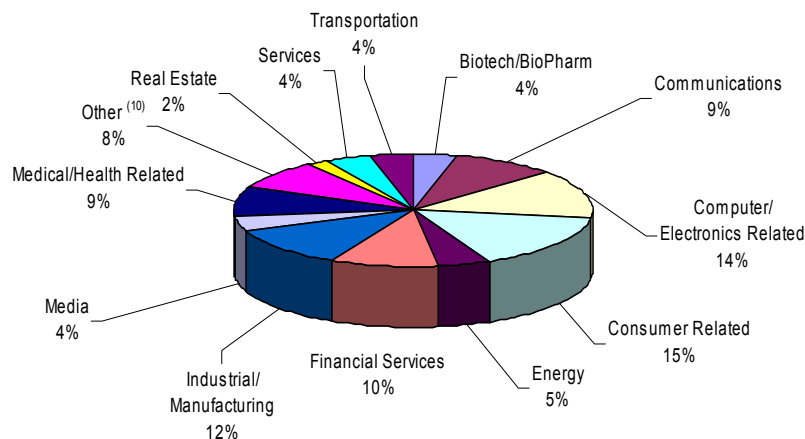
As of March 31, 2006, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, computer/electronics, and industrial/manufacturing.

PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF MARCH 31, 2006

Industry	Reported Value (US\$ MILLIONS)
Biotechnology/BioPharma	\$ 433.2
Communications	990.5
Computer/Electronics -Related	1,514.7
Consumer-Related	1,696.1
Energy	526.0
Financial Services	1,038.7
Industrial/Manufacturing	1,244.7
Media	420.5
Medical/Health-Related	939.3
Other ⁽¹⁰⁾	896.6
Real Estate	219.3
Services	435.8
Transportation	420.6
Total	\$ 10,776.0

⁽¹⁰⁾ Includes CalPERS' investments held through fund-of-funds.

Portfolio Diversification by Industry As Measured by CalPERS' Market Value Exposure As of March 31, 2006



California Focus

As of March 31, 2006, the AIM Program had \$10.6 billion in active commitments that were either headquartered or had a major presence in California. Active commitments to funds that focus primarily on investments in California were \$2.1 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 15% of the reported market value of the AIM portfolio.

CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF MARCH 31, 2006

Industry	Reported Value (US\$ IN MILLIONS)
Biotechnology/BioPharma	\$ 188.0
Communications	137.6
Computer/Electronics Related	388.7
Consumer-Related	159.6
Energy	34.1
Financial Services	136.2
Industrial Products/Manufacturing	64.1
Media	60.8
Medical/Health-Related	241.8
Other ⁽¹¹⁾	75.3
Real Estate	39.6
Services	88.6
Transportation	38.6
Total	\$ 1,653.0

⁽¹¹⁾ Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



D. AUTHORIZED COMMITMENTS

During the first quarter of 2006, the AIM Program authorized 14 new investments, totaling \$2.2 billion in new commitments.

Commitments and Contributions Since Inception

Since inception to March 31, 2006, CalPERS has contributed capital of \$19.5 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS
(US\$ IN MILLIONS)**

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain⁽¹²⁾</i>	<i>Investment Multiple</i>
1990	\$125.3	\$121.9	\$1.7	\$119.3	\$175.7	2.4
1991	171.7	179.6	0.3	150.5	358.2	2.8
1992	160.0	156.6	4.5	107.2	226.3	2.2
1993	563.0	560.0	73.7	431.0	561.8	1.9
1994	1,507.6	1,416.6	193.0	886.0	1,361.2	1.7
1995	1,197.9	1,139.2	227.1	635.9	984.7	1.6
1996	1,155.9	1,131.9	138.3	597.1	760.7	1.3
1997	1,111.9	1,088.3	316.6	472.9	746.4	1.4
1998	2,217.4	2,170.5	992.4	969.2	942.8	1.3
1999	1,247.8	1,160.7	568.2	355.7	424.7	1.2
2000	3,977.6	3,427.6	2,497.5	884.1	702.2	1.2
2001	4,771.0	3,728.2	3,004.7	1,115.7	898.8	1.4
2002	1,092.6	740.2	782.1	131.9	169.6	N/M
2003	1,496.2	897.1	1,020.4	157.6	179.6	N/M
2004	1,966.3	794.1	819.7	88.2	36.9	N/M
2005	3,888.7	792.7	764.3	5.1	3.8	N/M
2006	1,448.5	54.8	46.9	0	0	N/M
Authorized⁽¹³⁾	\$3,776.2	-	-	-	-	N/A
Total	\$31,875.6	\$19,560.0	\$11,451.4	\$7,107.4	\$8,533.4	1.4

⁽¹²⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽¹³⁾ These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.



E. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)

Significant Events

- None to report for the quarter ended March 31, 2006.

Material Exceptions to Policy

- None to report for the quarter ended March 31, 2006.

